

VZCZCXRO5761
RR RUEHMA RUEHPA
DE RUEHMA #0087/01 0310804
ZNR UUUUU ZZH
R 310804Z JAN 08
FM AMEMBASSY MONROVIA
TO RUEHC/SECSTATE WASHDC 9701
RUEATRA/DEPT OF TREASURY WASHDC
INFO RUEHZK/ECOWAS COLLECTIVE

UNCLAS SECTION 01 OF 03 MONROVIA 000087

SIPDIS

SENSITIVE
SIPDIS

DEPARTMENT FOR AF/W AND EEB/OMA
TREASURY FOR RICHARD HALL, OREN WHYCHE-SHAW, WILLIAM REMINGTON

E.O. 12598: N/A

TAGS: [EFIN](#) [EAID](#) [ECON](#) [PGOV](#) [LI](#)

SUBJECT: LIBERIA: PROGRESS ON DEBT, BUT SPENDING REMAINS A
CHALLENGE

Ref A)	Monrovia 63	(MinFin meeting)
Ref B)	07 Monrovia 1377	(IRS request)
Ref C)	07 Monrovia 1348	(MCC)
Ref D)	07 Monrovia 1322	(Fiscal update)
Ref E)	07 State 108948	(Arrears)

¶1. (U) SUMMARY: Liberia's fiscal picture is rosier in 2008 but there are still challenges. The July-September first quarter of FY 2007-08 saw revenue increase more than 50% from the same period the previous year, thanks to the Governance and Economic Management Assistance Program (GEMAP). The GOL continues to struggle with timely expenditures, although those, too, have improved over FY 2006-07. Scrubbing the civil service payroll has saved almost US\$4 million dollars.

¶2. (SBU) SUMMARY CONT: The GOL is settling valid domestic debts incurred by past governments and is proceeding with evaluation of "contestable" domestic debt. A legal opinion from the Ministry of Justice on the overall debt strategy is a prerequisite for further action on debt management. Agreement is near on settling GOL debt to domestic banks (including the Central Bank), which should help stabilize the financial sector. The GOL plans to resume discussions with foreign commercial creditors in mid-February. The IMF, World Bank and African Development Bank have each committed to moving forward on debt relief, opening the route to the next stage of the Highly Indebted Poor Country (HIPC) process. Although those announcements garnered broad press coverage, and are an important step toward debt relief, they are only one aspect of a multi-pronged strategy to return Liberia to a sustainable fiscal footing. Despite the progress, the GOL's difficulty in expediting expenditures contributes to the sense among Liberians that there has been no improvement in their daily lives, despite the increase in revenues and flow of foreign aid. END SUMMARY.

Revenues Improve

¶3. (U) The Quarter I Fiscal Outturn for Liberian FY 2007-08 reports continued strengthening of the government's fiscal position. (Note: The fiscal year starts July 1. End note.) Revenues of US\$43.75 million exceeded projections and were 50% greater year-on-year. The increased revenues were supported by the ongoing post-war economic rebound and foreign development assistance, but also by improved tax administration and revenue collection. Donor supported GEMAP was key to the improving fiscal picture. In response to a request from Finance Minister Sayeh (refs A & B) Treasury is sending advisors in February to assess the GOL's future tax administration training needs. The complete Fiscal Report is available at ([http://www.mofliberia.org/0708q1fiscalreport .pdf](http://www.mofliberia.org/0708q1fiscalreport.pdf)).

Speeding GOL Expenditure

14. (SBU) Expenditures of US\$32 million, at 16% of the annual appropriation, were 22% below projections but the pace of spending was better than the same period the previous year. Delays in passing the budget meant QI spending did not start until August 16, six weeks into the fiscal year. Expenditure for the quarter was also slowed by continued unfamiliarity with the new Public Procurement Act and lack of advance planning on procurement by GOL ministries. More than half of QI spending was for personnel expenses.

15. (SBU) Assistant Minister of Finance for Expenditure Aletha Browne told Econoff in December that the focus is on debt clearance and expediting expenditures. Browne noted procurement bids should have been tendered at the start of the fiscal year contingent on availability of funds. The quality of vouchers from ministries and agencies is improving, indicating better understanding of the new procurement system.

16. (SBU) Browne said capacity is a continuing problem. For example, MOF has analysts to cover each GOL ministry and agency but most of them are completely unfamiliar with the workings of their assigned ministries. She plans to build stronger relations with other major government agencies in the coming year.

17. (U) In a newspaper interview published December 31, Finance Minister Antoinette Sayeh cited the following examples of progress since the Sirleaf administration took office two years ago:

-- The minimum civil service salary has increased from US\$15 to US\$55 per month.

-- Civil service salaries and pensions are current for the first time in decades. (The Sirleaf administration inherited has also taken responsibility for civil service salary arrears incurred by

MONROVIA 00000087 002 OF 003

past governments. Of the \$13.12 million in public servant salary arrears inherited in January 2006, about \$9.21 million remains.)

-- GOL revenues have more than doubled since 2006, from a starting budget of US\$82 million to an FY2007-08 budget of almost US\$200 million.

-- The Ministry of Finance (MOF) has streamlined the process for paying taxes and fees and for voucher reimbursement.

-- The GOL is harmonizing tax and tariff policies with the region (ECOWAS).

In the interview, Minister Sayeh confirmed debt cancellation is in sight, perhaps within the next two years. (i.e. it is possible the HIPC completion point could be reached by late 2010.)

GEMAP Shows Results

18. (SBU) The positive revenue story owes much to the continued success of GEMAP, whereby donor-funded controllers at the major revenue agencies (including the Central Bank, port, airport, Ministry of Lands, Mines and Energy, the Cash Management Committee, Ministry of Finance (MOF), Budget Bureau and the Public Procurement and Concession Commission) have co-signing authority on financial transactions and are working to institutionalize sound financial management procedures. The increase in revenue, at rates far exceeding GDP growth, reflects the capture of funds that formerly "leaked" from public coffers. However, constant vigilance is needed to counter ploys to divert government funds as efforts to introduce sound fiscal management are squeezing employees' ability to use their positions to pursue "rent seeking."

Vanquishing Payroll Ghosts

19. (SBU) MOF has taken steps to address pervasive problems in delivery of government checks. In the absence of banks up-country or a functioning national postal system paychecks were traditionally

given to supervisors to distribute to employees, an unreliable method that contributed to corruption. As of September 2007, most civil servants now collect and sign for their individual checks. The Central Bank has branches in six counties and, with UNMIL assistance, sends paymasters to the other nine counties for three weeks every month to cash government checks. However, far-flung civil servants must still carry checks, often long distances on bad roads, to the county seat to be cashed. The inability to move money around the country safely and efficiently is a major constraint on economic growth and provision of effective government services.

¶10. (SBU) In her January 28 State of the Union message, President Sirleaf reported they had purged 12,300 names from the government payroll, saving nearly \$4 million. In December 2007, the GOL reported 22,734 government checks, totaling US\$763,000, were unclaimed in FY2006. (Note: GOL checks are valid for six months. End note.) Assistant Minister Browne said they believe the unclaimed checks belong to "ghost" employees. After consulting with the Director General of the Civil Service Agency and the President, the GOL has decided not to try to investigate further or press charges. They will remove invalid names from the payroll, and employees who subsequently claim expired checks will have to re-qualify for their job through the Civil Service Agency.

More Clarity on Domestic Debt

¶11. (SBU) During a January 17 meeting (ref A), Minister Sayeh expressed appreciation for Treasury's assistance on domestic debt management and stressed that MOF still has work to do, most importantly obtaining a legal judgment on the debt management strategy and proposed Trust Fund structure from the Ministry of Justice. MOF officials state it would be difficult to defend rejected claims without clear legal grounding. The Deputy Minister for Expenditure will provide us with a draft scope of work for next steps for USG assistance once the legal opinion is granted.

¶12. (SBU) Domestic claims against the GOL totaled approximately US\$900 million. Last year the GOL started paying the US\$300 million in clearly valid claims incurred by past governments. It completed payment on claims of up to US\$50,000 and has approximately US\$1.1 million in the current budget to start paying claims of between US\$50,001 to US\$1 million. (Claims larger than US\$1 million will be handled separately.)

¶13. (SBU) Most (US\$263 million) of the valid claims are owed to domestic financial institutions, of which US\$260 million is owed to

MONROVIA 00000087 003 OF 003

the Central Bank of Liberia (CBL). The MOU with the CBL has been signed and negotiations with both commercial bank creditors on repayment terms are nearing completion. The Central Bank is considered a preferred creditor, and GOL debt is being restructured so as to safeguard the CBL's capital strength and the GOL's fiscal space. Debt to the two domestic commercial banks will be discounted at an average rate of 46.6% and calibrated so it does not become a trigger for bank failure but minimizes moral hazard. The GOL is requesting a budget appropriation in FY 2007-08 to begin servicing the debt to the domestic commercial banks.

¶14. (SBU) The GOL will review the roughly US\$300 million "contestable" debt in early 2008, with the help of KPMG-Ghana. After establishing what each claim is missing, the GOL will be able to announce that creditors can provide the missing information to support reconsideration of their claim.

Closer to International Debt Relief

¶15. (SBU) On November 18, the IMF Board announced it had approved procedures to clear Liberia's arrears, which should be completed in March. On December 5 the World Bank announced that "Liberia cleared all overdue debt service payments." On December 18, the Board of the African Development Bank also agreed to a proposal clearing Liberia's arrears. Clearance of arrears to the international financial institutions moves Liberia along the process of obtaining

debt relief under HIPC, to which GEMAP is linked. Conclusion of the GEMAP process is a key indicator of donor confidence in the GOL's ability to manage an effective and transparent fiscal regime.

The "Litigating Creditors"

¶16. (SBU) Even after clearance of multilateral and bilateral foreign debt, Liberia owes an estimated US\$1 billion to foreign commercial creditors. The GOL has been working with the IMF to try to determine from foreign commercial creditors what the GOL owes to whom. Minister Sayeh told the Ambassador January 17 that she had met with one of Liberia's major commercial creditors, and reported to President Sirleaf at a January 23 LRDC meeting that she plans to resume discussions with commercial creditors in mid-February.

Comment

¶17. (SBU) On December 31, a major Liberian newspaper named Finance Minister Sayeh "Person of the Year" for "helping Liberia become unshackled." Despite Liberian journalists' proclivity to criticize the Sirleaf administration, there is appreciation for the vigorous efforts the President and the Finance Minister have made to move Liberia towards debt relief. Sayeh has been a forceful leader on debt relief; a supporter of accountability and transparency; she strongly advocates tax administration reform and is deeply engaged in upgrading Customs and rehabilitating the port.

¶18. (SBU) Comment continued: Continued USG support for debt management and tax administration reform will have broad impact on further improving Liberia's fiscal situation, enhancing the investment climate and increasing the GOL's ability to tackle poverty. President Sirleaf recognizes that her administration needs to do more to involve the legislature in meeting HIPC benchmarks. The GOL's difficulty in expediting expenditures contributes to the sense among Liberians that there has been no improvement in their daily lives, despite the increase in revenues and flow of foreign aid.

Booth